

**REPORT OF THE AUDIT OF THE
FORMER LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
April 16, 2014 Through December 31, 2014**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT OF THE
FORMER LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
April 16, 2014 Through December 31, 2014**

The Auditor of Public Accounts was engaged to audit the Sheriff's Settlement - 2014 Taxes for the former Leslie County Sheriff for the period April 16, 2014 through December 31, 2014. Based upon the audit work performed, we have issued a qualified opinion on the financial statement.

Financial Condition:

The former Sheriff collected 2014 taxes of \$2,643,617 for the districts, retaining commissions of \$77,386 to operate the former Sheriff's office. The former Sheriff distributed 2014 taxes of \$2,544,622 to the districts. Taxes of \$20,740 are due to the districts from the former Sheriff and refunds of \$8 are due to the former Sheriff from the taxing districts.

Report Comments:

- 2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2014-002 The Former Sheriff Did Not Provide Necessary Records To Auditors
- 2014-003 The Former Sheriff's Office Did Not Record All Tax Payments Received
- 2014-004 Daily Deposit Reports Did Not Agree To Bank Deposits And Deposits Were Not Prepared Daily
- 2014-005 There Is A Deficit Of \$12,754 In The Former Sheriff's 2014 Official Tax Account
- 2014-006 The Former Sheriff Incorrectly Calculated Commissions And Withheld Commissions From The School Board For December Collections
- 2014-007 The Incorrect Tax Rate Was Used To Calculate School Taxes
- 2014-008 The Former Sheriff Has Not Resolved Unsettled 2013 Tax Liabilities And Deficit
- 2014-009 The Former Sheriff Has Not Resolved Unsettled 2012 Tax Receivables, Liabilities, And Deficit
- 2014-010 The Former Sheriff Has Not Resolved Unsettled 2011, 2010, 2009, 2008, 2007, And 2006 Tax Receivables, Liabilities, And Deficits
- 2014-011 The Former Sheriff's Office Did Not Distribute Interest Earnings

Deposits:

The former Sheriff's deposits as of December 5, 2014 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,249,327

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2014 TAXES	4
NOTES TO FINANCIAL STATEMENT	6
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS	8
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	10
COMMENTS AND RECOMMENDATIONS	13



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Paul Howard, Former Leslie County Sheriff
Honorable Delano Huff, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Leslie County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through December 31, 2014 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on conducting our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the People of Kentucky

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former Leslie County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The former County Sheriff did not provide a representation letter as required by auditing standards generally accepted in the United States of America.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matters described above in the Basis for Qualified Opinion paragraph, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2014 through December 31, 2014 of the former Leslie County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The schedule of excess liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
 Finance and Administration Cabinet
 Honorable Jimmy Sizemore, Leslie County Judge/Executive
 Honorable Paul Howard, Former Leslie County Sheriff
 Honorable Delano Huff, Leslie County Sheriff
 Members of the Leslie County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2016 on our consideration of the former Leslie County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Leslie County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the former Leslie County Sheriff's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2014-002 The Former Sheriff Did Not Provide Necessary Records To Auditors
- 2014-003 The Former Sheriff's Office Did Not Record All Tax Payments Received
- 2014-004 Daily Deposit Reports Did Not Agree To Bank Deposits And Deposits Were Not Prepared Daily
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- 2014-011 The Former Sheriff's Office Did Not Distribute Interest Earnings

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

March 17, 2016

LESLIE COUNTY
 PAUL HOWARD, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES
 For The Period April 16, 2014 Through December 31, 2014

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 321,081	\$ 524,479	\$ 1,126,775	\$ 243,304
Tangible Personal Property	81,147	147,216	283,011	216,978
Fire Protection	5,526			
Franchise Taxes	48,203	86,680	167,600	
Additional Billings	178	294	617	245
Interest on Franchise Taxes	8	13	25	
Adjusted to Sheriff's Receipt	272	674	3,758	301
Gross Chargeable to Sheriff	<u>456,415</u>	<u>759,356</u>	<u>1,581,786</u>	<u>460,828</u>
<u>Credits</u>				
Exonerations	2,041	3,257	7,150	1,624
Discounts	5,185	8,661	17,969	6,181
Transferred to Incoming Sheriff	<u>81,790</u>	<u>130,109</u>	<u>285,145</u>	<u>65,656</u>
Total Credits	<u>89,016</u>	<u>142,027</u>	<u>310,264</u>	<u>73,461</u>
Taxes Collected	367,399	617,329	1,271,522	387,367
Less: Commissions *	<u>15,614</u>	<u>26,236</u>	<u>19,073</u>	<u>16,463</u>
Taxes Due	351,785	591,093	1,252,449	370,904
Taxes Paid	349,699	587,830	1,237,760	369,333
Refunds (Current and Prior Year)	<u>128</u>	<u>202</u>	<u>450</u>	<u>97</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 1,958</u>	<u>\$ 3,061</u>	<u>\$ 14,239</u>	<u>\$ 1,474</u>

**

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
PAUL HOWARD, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES
For The Period April 16, 2014 Through December 31, 2014
(Continued)

* Commissions:

4.25% on \$ 1,372,095

1.5% on \$ 1,271,522

** Special Taxing Districts:

Library District	\$ 1,317
Health District	483
Extension District	1,063
Soil Conservation District	206
City of Hyden District	<u>(8)</u>

Due Districts or

(Refund Due Sheriff)	<u>\$ 3,061</u>
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LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Leslie County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the former Sheriff's deposits may not be returned. The former Leslie County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). On December 5, 2014, the former Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$1,249,327

Note 3. Property Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2014 through December 31, 2014.

Note 4. Interest Income

The former Leslie County Sheriff earned \$62 as interest income on 2014 taxes. As of March 17, 2016, the former Sheriff owed \$29 in interest to the school district and \$33 in interest to his fee account.

Note 5. School Taxing District

For the 2014 tax collections, the real estate and tangible tax rates for the Leslie County School were certified incorrectly. The tax bills were printed using 0.566 instead of the approved tax rate of 0.565.

LESLIE COUNTY
PAUL HOWARD, FORMER SHERIFF
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS

For The Period April 16, 2014 Through December 31, 2014

Assets

Cash in Bank (All Tax Accounts)		\$	552,837
Deposits in Transit			66,435
Collected Receivables			10,531
Receivables:			
City of Hyden	\$	8	
Commission Due From 2014 Fee Account		6,772	
Due Personally From Sheriff for Negative Beginning Balance		8	6,788
			<hr/>
Total Assets			636,591

Liabilities

Paid Obligations-			
Outstanding Checks			207
Outstanding Liabilities			628,298
			<hr/>
Total Paid Obligations			628,505
Unpaid Obligations-			
Taxing Districts-			
State	\$	1,474	
County		1,958	
School		14,239	
Library		1,317	
Health		483	
Extension		1,063	
Soil Conservation		206	20,740
			<hr/>
Overpayment Due Taxpayer		38	
Interest Due To School		29	
Interest Due Former Sheriff's Fee Account		33	
			<hr/>
Total Unpaid Obligations			20,840
			<hr/>
Total Liabilities			649,345
			<hr/>
Total Fund Deficit as of December 31, 2014			\$ (12,754)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Paul Howard, Former Leslie County Sheriff
Honorable Delano Huff, Leslie County Sheriff
Members of the Leslie County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits, contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the former Leslie County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through December 31, 2014 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 17, 2016. The former Leslie County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Leslie County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Leslie County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Leslie County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001, 2014-003, 2014-004, 2014-005, 2014-006, 2014-008, 2014-009, and 2014-010 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-007 and 2014-011 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Leslie County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-002, 2014-003, 2014-004, 2014-005, 2014-006, 2014-008, 2014-009, 2014-010, and 2014-011.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

March 17, 2016

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
PAUL HOWARD, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2014 Through December 31, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

The former Sheriff's office had a lack of adequate segregation of duties over the receipts and disbursements processes, and reconciliations. These control deficiencies were present because two office clerks' duties included receiving tax payments from taxpayers, entering tax payments in the computerized system, preparing the daily deposit, and preparing the daily checkout sheet. These employees also had the authority to prepare disbursement checks for refunds. The office manager's duties included receiving tax payments from taxpayers, entering tax payments in the computerized system, preparing the daily deposit, preparing the daily checkout sheet, preparing the monthly tax reports, preparing disbursement checks, and performing the monthly bank reconciliations. While the former Sheriff has stated in prior audits he reviewed monthly reports and bank statements, this review is not documented. As a result, compensating controls were not sufficient to mitigate the effects of the lack of adequate segregation of duties previously described. This internal control weakness has resulted in the deficiencies described in comments 2014-002, 2014-003, and 2014-004.

To adequately protect against misappropriation of assets and inaccurate financial reporting, the former Sheriff should have separated the duties involving collecting tax payments from customers, preparing deposits, preparing daily checkout sheets, preparing monthly tax reports, preparing disbursements, and reconciling the bank account. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If that was not feasible, due to a limited number of staff, strong oversight over these areas should have occurred and involved an employee not currently performing any of those functions.

If the former Sheriff chose to implement compensating controls, the former Sheriff should have documented his oversight on the appropriate source documents. The following are examples of other controls the former Sheriff could have implemented:

- The former Sheriff, or his designee, could have periodically recounted and deposited cash receipts. This could have been documented by initialing the daily checkout sheet and deposit slip.
- The former Sheriff, or his designee, could have periodically compared batched totals, to the daily tax collection report and to the deposit slip, resolved any discrepancies, and documented the review by initialing the deposit ticket.
- The former Sheriff, or his designee, could have compared total tax collections per the monthly reports to the totals per daily collection reports, resolved any discrepancies, and documented his review by initialing the reports.
- The former Sheriff could have examined checks prepared by the office manager and compared checks to the monthly tax reports, resolved any discrepancies, and documented the review by initialing and dating the monthly tax reports.

Former Sheriff's Response: No Response.

LESLIE COUNTY
 PAUL HOWARD, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2014 Through December 31, 2014
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 The Former Sheriff Did Not Provide Necessary Records To Auditors

Despite various methods of contact with the former Sheriff and his employees, he did not provide all necessary records to document the collection of 2014 taxes from April 16, 2014 through December 31, 2014. In order to perform audit procedures, records were obtained from outside sources. For example, the County Clerk provided a copy of the former Sheriff's official receipt, bank statements were obtained from the bank, and a copy of the delinquent list used to support uncollected tax bills turned over to the Incoming Sheriff was obtained from the Department of Revenue. No bank reconciliations were provided or could be located. KRS 134.215 states, in part, "[a]n outgoing sheriff, as soon as his or her successor has been qualified and inducted into office... shall... [d]eliver to his or her successor all books, papers, records, and other property held by virtue of his or her office." KRS 64.830 includes the same requirements. Based on information provided, the former Sheriff removed a portion of accounting records from the Sheriff's office at the end of his term. As a result, these records had to be obtained from third parties and modified procedures were implemented to verify the accuracy of remaining financial records. The former Sheriff should have ensured compliance with statutes by providing necessary records to auditors.

We will refer this finding to the Office of the Attorney General.

Former Sheriff's Response: No Response.

2014-003 The Former Sheriff's Office Did Not Record All Tax Payments Received

The former Sheriff's office did not record all tax payments received. As a result, the uncollected taxes transferred to the incoming Sheriff were not accurate. The following were noted:

- Four tax bills were partially exonerated. Taxpayers properly paid the balance due; however, the balance due was included on the transfer receipt. The face amount of these bills totaled \$1,731.
- A cash payment for one tax bill was manually recorded on the triplicate green bill on December 5, 2014 and entered in the tax collection software. The payment was then deleted from the tax collection software. The face amount of this bill was \$662.
- Payment for 36 bills was manually recorded on triplicate green bills during November and December. However, no payments for these bills were recorded in the former Sheriff's tax collection software during the former Sheriff's term. These bills were identified in April 2015, and payment was recorded as being received by the Incoming Sheriff. The face amount of these bills totaled \$11,402. No corresponding deposit for collection of these bills could be identified.
- Nine bills were certified as delinquent and turned over to the County Clerk by the incoming Sheriff; however, taxpayers subsequently provided documentation to the County Clerk to verify payment was made to the former Sheriff's office during November or December. The face amount of these bills totaled \$2,780.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires deposits be made daily and properly documented by a daily checkout sheet. Further, effective internal controls require deposits, deposit reports and checkout sheets should be prepared daily, and should agree to both manual and computerized batches of receipts. KRS 134.191 requires the Sheriff to provide monthly reports and distribute funds to each district for which the Sheriff collects taxes by the tenth day of each month.

LESLIE COUNTY
 PAUL HOWARD, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2014 Through December 31, 2014
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003 The Former Sheriff's Office Did Not Record All Tax Payments Received (Continued):

Further, KRS 134.215(2)(a) requires, "[a]ll unpaid tax claims and tax claims upon which partial payments have been accepted in the possession of the sheriff upon the date of expiration of his or her term shall be turned over to the incoming sheriff, who shall collect and account for them as provided by law." Effective internal controls require this transfer receipt, as noted in KRS 134.215(2)(b), to be accurate and exclude any bills for which payments have been received.

The former Sheriff's office lacked adequate segregation of duties and internal controls over receipts did not operate effectively (see comment #2014-001 for additional details). No internal controls to verify the accuracy of the transfer receipt appear to have been implemented. As a result of these weaknesses in internal controls, tax collections were not properly recorded, a portion of monies received was not properly deposited, and tax collections were not reported or distributed to districts on monthly reports. In total, the former Sheriff's transfer receipt incorrectly included 50 tax bills, totaling \$16,575, to the incoming Sheriff.

Since collection of some of these bills cannot be traced to a deposit to the former Sheriff's official tax account, these misstatements contribute to the deficit in the former Sheriff's official tax account. The former Sheriff should have implemented internal controls to ensure all tax payments were properly recorded and deposited intact on a timely basis. The uncollected tax bills included on the transfer receipt should have been verified for accuracy.

Former Sheriff's Response: No Response.

2014-004 Daily Deposit Reports Did Not Agree To Bank Deposits And Deposits Were Not Prepared Daily

Material weaknesses related to deposit and daily checkout procedures were identified that resulted in discrepancies in the former Sheriff's tax records. These weaknesses allowed the following to occur:

- A review of five daily batches and daily checkout sheet documentation noted deposit report collections did not agree to daily deposits on three days. Details of these differences are as follows:
 - On December 2, 2014, a check for \$22 was included within the deposit, but no corresponding tax bill was marked paid.
 - On December 2, 2014, a bill for \$65 was marked paid in the tax collection software; however no check was included in the deposit detail. The manual green bill identified payment on December 1, 2014; however, the checkout sheet was dated December 3, 2014.
 - On December 3, 2014, payment of \$22 was received by check for a bill previously marked paid on November 10, 2014 in cash. The overpayment was not recorded, and a check was not issued to the taxpayer.
- For the five consecutive deposit test periods, tax bills were not batched daily and deposits were not made intact. This is documented as follows:
 - Two checkout sheets were dated December 2, 2014, while three were dated for December 3, 2014. Deposits for four batches cleared on December 3, 2014, and one cleared on December 4, 2014.
 - Manual green receipts were marked paid from November 26, 2014 through December 2, 2014.
 - A large number of green bills were marked paid on Sunday, November 30, 2014.

LESLIE COUNTY
 PAUL HOWARD, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2014 Through December 31, 2014
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-004 Daily Deposit Reports Did Not Agree To Bank Deposits And Deposits Were Not Prepared Daily

- The daily checkout sheet for batch #32, dated December 2, 2014, included checks dated November 1 through November 22, 2014. The daily checkout sheet for batch #34, dated December 3, 2014, included checks dated November 22 through November 30, 2014. Both deposits cleared on December 3, 2014.

Further review of the former Sheriff's daily deposit reports, in comparison to daily deposits, noted deposits did not agree to amounts recorded paid in the tax collection software on 46 of 62 deposits. It was not feasible for auditors to perform a review and reconciliation of every day of tax collections; therefore, it was not possible to identify the nature and source of every overage and every shortage. Such a review could have increased the former Sheriff's deficit in the official tax account.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual*, requires deposits be made daily and properly documented by a daily checkout sheet. Further, effective internal controls over deposit, deposit report, and checkout sheet preparation require deposits, deposit reports and checkout sheets be prepared daily, and accurately record all collections, such as overpayments. Deposits and checkout sheets should agree to daily deposit reports in order to prevent recording errors or undetected deposit shortages. The lack of adequate segregation of duties with weak internal controls for daily reconciliations allowed the findings above; it also allowed the deficit described in comment 2014-005 to occur without detection. The former Sheriff should have strengthened internal control procedures to ensure deposits, checkout sheets, and deposit reports were prepared daily and properly reconciled. The former Sheriff's monthly reconciliation procedures should have included comparisons of daily bank deposits and checkout sheets to daily deposit reports.

Former Sheriff's Response: No Response.

2014-005 There Is A Deficit Of \$12,754 In The Former Sheriff's 2014 Official Tax Account

The former Sheriff has a deficit of \$12,754 in his official 2014 tax account. As previously described in comments 2014-001, 2014-003, and 2014-004, weakness in internal control procedures did not detect discrepancies in daily and monthly accounting records, in which deposits do not appear to have been made intact and collections were not accurately reported to taxing districts. As collector of property taxes, the former Sheriff assumed full responsibility for all tax collections and complete distribution of these collections to the proper taxing districts. The former Sheriff should have implemented controls to ensure tax collections were processed in a manner that produced reliable accounting records. These controls should have included depositing collections intact, in a timely manner, and performing reconciliations of daily batches to daily deposits, deposit reports generated from the tax collection software, daily checkout sheets and monthly tax reports. In order to properly distribute 2014 tax collections, we recommend the former Sheriff eliminate the deficit in the 2014 tax account with a deposit of \$12,754 from personal funds. We will refer this finding to the Kentucky Office of the Attorney General and Leslie County Attorney.

Former Sheriff's Response: No Response.

LESLIE COUNTY
 PAUL HOWARD, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2014 Through December 31, 2014
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-006 The Former Sheriff Incorrectly Calculated Commissions And Withheld Commissions From The School Board For December Collections

The former Sheriff did not remit commissions to the Leslie County Board of Education for December collections. The former Sheriff's office calculated school commissions at four percent of gross collections, withheld the incorrectly calculated commission amount of \$11,509, and remitted net collections to the School Board. The incorrectly calculated four percent commissions were paid to the former Sheriff's fee account. However, for the December through January 3 collection period, the Leslie County Superintendent had fixed the former Sheriff's tax commission rate at one and one-half percent.

As a result, the school did not receive the gross amount of tax collections, and the former Sheriff's fee account was overpaid commissions. Since the incorrect percentage was used to calculate commissions, the school also did not receive all tax collections due.

KRS 160.510 requires the sheriff, as tax collector, to pay to the school board's depository "the amount of school tax collected up to and including the last day of the preceding month." There is no exception in this statute, or in any other statute, for the sheriff to first deduct his commissions from the school taxes collected before remitting the total amount of taxes collected to the school's depository. Once the sheriff has remitted the taxes to the school, the school then returns to the sheriff his commission. Benson v. Board of Education, 748 S.W.2d 156 (Ky. App. 1988) and OAG 82-587 reinforce and support this interpretation of KRS 160.510. The former Sheriff's office lacked adequate segregation of duties, which allowed commissions to be inaccurately calculated and improperly withheld without timely detection. The former Sheriff should have implemented internal controls to ensure compliance with the statute. Effective internal controls would have verified commission amounts paid to the fee account were accurate.

Former Sheriff's Response: No Response.

2014-007 The Incorrect Tax Rate Was Used To Calculate School Taxes

The incorrect tax rate was used to calculate school taxes on tax bills. The correct rate set by the Leslie County Board of Education was \$0.565 per \$100 of assessment. However, the tax bills reflected an incorrect rate of \$0.566 per \$100 of assessment. Although it is the responsibility of the County Clerk to prepare the tax bills, the former Sheriff's office did not implement internal controls to verify tax bills reflected the correct rates so that taxes were accurately calculated. As a result, taxpayers were erroneously charged \$0.001 cents, per \$100 of assessment. Effective internal controls would have required the former Sheriff's office to verify the accuracy of all tax bills subject to collection. The former Sheriff's office should have implemented internal controls to verify tax bills reflected the correct tax rates.

Former Sheriff's Response: No Response.

LESLIE COUNTY
 PAUL HOWARD, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2014 Through December 31, 2014
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-008 The Former Sheriff Has Not Resolved Unsettled 2013 Tax Liabilities And Deficit

The 2013 tax liabilities have not been properly settled because the former Sheriff's has not deposited personal funds to eliminate the 2013 tax account deficit of \$80,666. According to KRS 134.191(3), "At the time of making the report, the sheriff shall pay to the county treasurer or other officer designated by the governing body of a county, to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the district that were collected during the period covered by the report." Effective internal controls would require the former Sheriff to settle receivables and liabilities identified through audit procedures in a timely manner. The former Sheriff's failure to deposit personal funds has resulted in taxing districts and the former Sheriff's fee account not receiving funds due in a timely manner.

Cash in Bank	\$ 29,353
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Liabilities:

Taxes Due Districts-

Kentucky State Treasurer	\$ 5,996
Leslie County Fiscal Court	17,073
Leslie County Board of Education	54,032
Leslie County Library	11,879
Leslie County Health Department	4,222
Leslie County Extension Office	12,416
Leslie County Soil Conservation	48
Commissions Due 2014 Fee Account	<u>4,353</u>

Total Liabilities	<u>110,019</u>
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Total Fund Deficit as of October 30, 2015	<u>\$ (80,666)</u>
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We recommend the former Sheriff deposit personal funds to cover the deficit, so the remaining liabilities can be paid. We will refer this finding to the Office of the Attorney General and Leslie County Attorney.

Former Sheriff's Response: No Response.

2014-009 The Former Sheriff Has Not Resolved Unsettled 2012 Tax Receivables, Liabilities, And Deficit

The 2012 tax receivables and liabilities have not been properly settled. The former Sheriff's unresolved 2012 tax account deficit is \$5,035. According to KRS 134.191(3), "At the time of making the report, the sheriff shall pay to the county treasurer or other officer designated by the governing body of a county, to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the district that were collected during the period covered by the report." Effective internal controls would require the former Sheriff to settle receivables and liabilities identified through audit procedures in a timely manner.

LESLIE COUNTY
 PAUL HOWARD, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2014 Through December 31, 2014
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-009 The Former Sheriff Has Not Resolved Unsettled 2012 Tax Receivables, Liabilities, And Deficit
 (Continued):

The former Sheriff's failure to deposit personal funds has resulted in taxing districts, taxpayers, and the former Sheriff's fee account not receiving funds due in a timely manner.

Assets

Cash in Bank (All Tax Accounts)		\$	(8)
Receivables Due:			
Kentucky State Treasurer (regular)	\$	5,828	
Board of Education (regular)		1,280	
City of Hyden (regular)		75	
2011 Tax Account (improper transfer)		614	
2013 Tax Account (improper transfer)		1,007	8,804
			<hr/>
Total Assets			8,796

Liabilities

Taxes Due Districts-			
Kentucky State Treasurer (gas & oil)	\$	105	
County (regular)		103	
County (gas & oil)		128	
Board of Education (gas & oil)		489	
Library (regular)		81	
Library (gas & oil)		112	
Health (regular)		32	
Health (gas & oil)		35	
Extension (regular)		54	
Extension (gas & oil)		59	
Soil Conservation (gas & oil)		12	1,210
			<hr/>
Refunds Due Taxpayers			9,378
Overpayments Due Taxpayers			1,445
Commissions Due 2013 Fee Account			1,716
Interest Due Board Of Education			82
			<hr/>
Total Liabilities			13,831
			<hr/>
Total Fund Deficit as of July 31, 2014		\$	(5,035)
			<hr/>

LESLIE COUNTY
 PAUL HOWARD, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2014 Through December 31, 2014
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-009 The Former Sheriff Has Not Resolved Unsettled 2012 Tax Receivables, Liabilities, And Deficit
 (Continued):

We recommend the former Sheriff collect the receivables identified above and deposit personal funds to cover the deficit, so the remaining liabilities can be paid. We will refer this finding to the Office of the Attorney General and Leslie County Attorney.

Former Sheriff's Response: No Response.

2014-010 The Former Sheriff Has Not Resolved Unsettled 2011, 2010, 2009, 2008, 2007, And 2006 Tax
 Receivables, Liabilities, And Deficit

The consolidated 2011, 2010, 2009, 2008, 2007, & 2006 tax receivables due, liabilities owed, and deficits have not been properly resolved. The former Sheriff's consolidated deficit for these tax cycles is \$17,082. According to KRS 134.191(3), "At the time of making the report, the sheriff shall pay to the county treasurer or other officer designated by the governing body of a county, to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the district that were collected during the period covered by the report." Effective internal controls would require the former Sheriff to settle receivables and liabilities identified through audit procedures in a timely manner. The former Sheriff's failure to deposit personal funds has resulted in taxing districts, taxpayers, and the former Sheriff's fee account not receiving funds due in a timely manner.

Cash in Bank		\$	18,658
Receivables:			
Commissions Due From 2008 Fee Account	\$	2,832	
Commissions Due From 2010 Fee Account		385	
Kentucky State Treasurer (regular)		852	
Leslie County Fiscal Court		885	
Leslie County Health Department		176	
Leslie County Extension Office		84	
Leslie County Soil Conservation		5,484	
Uncollected Franchise Bill		760	
Uncollected Returned Check		620	
Due From Taxpayers		3,780	
			\$ 15,858
Total Assets			34,516

LESLIE COUNTY
 PAUL HOWARD, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2014 Through December 31, 2014
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-010 The Former Sheriff Has Not Resolved Unsettled 2011, 2010, 2009, 2008, 2007, And 2006 Tax Receivables, Liabilities, And Deficit (Continued):

Liabilities:

Taxes Due Districts-

Leslie County Board of Education	\$	9,403
Leslie County Library		3,428
City of Hyden		268
Refunds Due Taxpayers		32,194
Overpayments Due Taxpayers		489
Add On Fees Due 2009 Fee Account		1,115
Advertising Fees Due 2009 Fee Account		294
Interest Due 2009 Fee Account		9
Erroneous Reimbursement Due 2009 Fee Account		149
Commissions Due 2011 Tax Account		955
Interest Due 2011 Tax Account		160
Add-On Fees Due 2012 Fee Account		628
Commissions Due 2012 Fee Account		1,114
Interest Due 2012 Fee Account		169
Commissions Due 2013 Fee Account		56
Interest Due 2014 Fee Account		13
Improper Transfer Due 2012 Tax Account		614
Interest Due School Board		540

Total Liabilities \$ 51,598

Total Fund Deficit as of October 31, 2015 \$ (17,082)

We recommend the former Sheriff collect the receivables identified above and deposit personal funds to cover the deficit, so the remaining liabilities can be paid. We will refer this finding to the Office of the Attorney General and Leslie County Attorney.

Former Sheriff's Response: No Response.

LESLIE COUNTY
PAUL HOWARD, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2014 Through December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-011 The Former Sheriff's Office Did Not Distribute Interest Earnings

The former Sheriff's office did not distribute interest to the school district. KRS 134.140 requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." KRS 134.140 allows the remaining monthly interest to be transferred to the Sheriff's fee account to pay the lawful expenses of his office. The lack of adequate segregation of duties and weak internal controls within the former Sheriff's office (as described in comment 2014-001) allowed this instance of noncompliance to occur and not be detected. As a result, the school and the fee account did not receive interest income. The former Sheriff should have implemented internal controls to ensure compliance with KRS 134.140 by paying the amount of interest due to the school and fee account on a monthly basis.

Former Sheriff's Response: No Response.

